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SIPDIS

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USAID FOR ADMINISTRATOR NATSIOS;
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DCHAA FOR ROGER WINTER;
DCHAA/FFP FOR LAUREN LANDIS, LESLIE PETERSON, DALE SKORIC,
AND JOHN BRAUSE;
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SUBJECT: DISCUSSION WITH UNDP ON POSSIBLE USE OF U.S. WHEAT
IN ADDRESSING HUMANITARIAN FOOD CRISIS

[11.](#) Summary. Charge met with UNDP Resident Representative Victor Angelo on November 4 to review recent developments in the humanitarian food crisis in Zimbabwe. Angelo was particularly interested in discussing a possible donation of U.S. wheat/wheat flour to the World Food Program (WFP), which would in turn monetize this commodity and thereby involve the private sector in helping to address the food crisis, at least in the urban context. The discussion centered on possible complications, policy considerations (positive as well as negative), and logistical issues. While nothing concrete was proffered, nor committed to, by either side, it is our view that provision of U.S. wheat/wheat flour could yield important benefits, both programatically and policy-wise. We request that Washington examine the feasibility of such an intervention and look into the availability of wheat/wheat flour that could be donated to WFP for monetization. End Summary.

The Situation

[12.](#) Angelo underlined that the lack of food in rural areas remains the principal focus of the UN's Consolidated Appeal for Zimbabwe (CAP). However, there is also a growing food crisis in the cities that is projected to put 850,000 persons at risk, and possibly more if the ongoing rural to urban migration expands. Certain commodity staples, such as maize meal, are increasingly unavailable, and potential substitute commodities are simply too expensive for the poorest, most food-vulnerable urban population to buy. In the past, bread was the principal alternative to maize meal, but it too is increasingly in shortage due to dwindling wheat/wheat flour stocks and looks to remain so for the foreseeable future. The reasons for this are manifold.

[13.](#) In an average year, Zimbabwe produces approximately 300,000 metric tons (MT) of wheat against consumption needs of 400,000 MT. The difference is normally covered by imports of approximately 100,000 MT of hard wheat, which is required for blending purposes with softer local wheat varieties. Virtually all of Zimbabwe's domestic wheat production has traditionally come from commercial farms, much of it as irrigated winter wheat. Disruption of the commercial farming sector by President Mugabe's purported "land reform" has seriously damaged this production cycle. While there is not yet an accurate figure for how much winter wheat will be harvested from the past winter's crop (by the end of November), the Food and Agriculture Organization is projecting about 100,000 MT total for the year, leaving a shortfall of 250,000 MT, taking into account planned imports of hard wheat.

[14.](#) At this point, there is no prospect that the GOZ's Grain Marketing Board (GMB), the parastatal that monopolizes both the import of cereals and the purchase of local cereal crops, will be able to cover this shortfall. A critical lack of forex has thus far hampered GMB attempts to purchase enough maize to cover the massive shortage of that commodity; in this context, sourcing of sufficient wheat to meet normal demand appears highly unlikely. It is a fact, however, that demand has not fallen. In urban areas the demand for bread has increased as a substitute for unobtainable maize meal at a time when the supply of wheat/wheat flour is actually diminishing. The results are predictable.

[15.](#) The GOZ's attempts to impose a fixed sales price for a basic loaf of bread, as well as a fixed price at which millers and bakers purchase the wheat to produce bread, have floundered. The fixed profit margin between purchase price of flour and the sale price of bread has become nonsensical as the exchange rate of the Zimbabwe dollar has plunged,

increasing the cost of imported inputs. Many domestic inputs have also risen. As a result, millers and bakers complain that they can hardly produce basic loaves of bread without a loss, if the bread is sold at the mandated price.

16. This has led to a number of defensive market strategies, including selling bread at double or more the set price, easily accomplished in an environment where product shortage dominates. Millers have also reportedly used the inadequate supply of wheat allotted them by the GMB to mill cake flour, which is used to produce premium breads, bread rolls, and other products that are non-price controlled and offer a higher profit margin. Bakers add onion flakes to dough or prepare special crusts, declare the product a specialty item, and thereby also sidestep GOZ controls. The end result are products that are priced beyond the reach of the poorest and most food vulnerable segment of the urban population.

17. Aware of this problem, the GOZ has reacted in its usual ham-handed statist manner. November 5 newspapers published statements by Ministry of Industry and International Trade Permanent Secretary Comberbach ordering millers to desist from milling cake flour and producing higher-priced products until wheat supplies return to normal. This begs the question of when this might occur. There is little room for optimism that next year's winter wheat crop will reach past levels, given the continuing destruction of the commercial farming sector. It is also implausible that the GOZ will generate sufficient forex reserves to source future wheat purchases on international markets, given the concomitant reduction in the production of tobacco and other cash crops. In sum, all government directives and decrees aside, Zimbabwe's urban poor are about to receive a painful, first-hand Macroeconomics 101 lesson on the law of supply and demand.

The Solution and the Mechanism

18. Angelo and DCM strategized over how this problem might be overcome, at least until next year's maize crop is harvested and hopefully provides some relief countrywide, assuming normal rains and rebounding communal maize production. Angelo said that the provision of wheat to the private sector would be the ideal solution, since it has the advantage of keeping the private sector in the urban food game (and the GOZ out of it) and limits the need for the UN or others to establish elaborate targeting, distribution, and monitoring mechanisms in urban areas. It is obvious, however, that the GOZ-imposed prices for wheat and bread, and the diminished purchasing power of the poorest urban consumers, would require some degree of subsidy if such an approach were to be viable. Otherwise, millers and bakers would be unwilling/unable to import wheat/wheat flour at world market prices because the penury of their customers would mean that there would be no market (or profit margin) for their end product.

19. The best solution would be a delivery of subsidized wheat that would sidestep GOZ control and go directly to the private sector, to permit the production of a sufficient quantity of bread that could be sold at a price that the urban poor can afford. Angelo proposed the following mechanism as a possible option. The USG would provide on a grant basis a sufficient quantity (to be determined) of wheat flour to WFP, which would in turn monetize this commodity through direct sale to millers/bakers at the current fixed price under terms that would commit the millers/bakers to produce standard loaves of bread at a price affordable by the urban poor, as in the past. The WFP would obtain from the GMB import permits (and could do so, Angelo opined) for the wheat, but at no time would the GMB or any other GOZ entity take possession of the product or control of the process. (There is precedent for this, since in the past the GMB granted import licenses directly to millers/bakers when the private sector was able to access sufficient forex to finance such imports.) Angelo said that the WFP could use the proceeds from the monetization in various way that would support the CAP: financing unfunded supplemental school feeding programming; paying for unfunded distribution of medicines procured for WHO by the UK and the EU; financing unfunded rural Food-for-Work programs and similar beneficiary empowerment initiatives; or financing recurrent WFP costs associated with humanitarian food distribution in rural areas. WFP would provide to the USG all accounting required to justify the use of funds earned from monetization.

Policy Benefits

10. Angelo and DCM next discussed the benefits of such an approach, as opposed to the drawbacks.

-- There would be no GOZ or GMB control over the process,

other than granting import licenses.

- There would be less pressure on maize supplies to rural areas from increased substitution of bread products for urban consumers.
- The program would bring the beleaguered private sector into the humanitarian program, long a goal of the CAP and bilateral donors.
- Because of private sector and market involvement, there would be no labor-intensive need for WFP to organize distribution and oversight mechanisms.
- The affordability of the bread end-product would be self-targeting in that it would keep this staple commodity available to the urban poor, preventing politicization of the initiative.
- The fixed profit margin between GOZ-prescribed wheat prices and the set price of bread would prevent bakers from making large windfall profits. (Indeed, lack of profitability at current set prices might be the real issue.)
- This program would balance the food need equation between predominantly ZANU-PF controlled rural areas, until now the sole beneficiaries of humanitarian feeding, and the increasingly needy and predominantly pro-opposition urban areas.
- There would no complicating biotech issues.
- The proceeds from monetization would help provide local currency for UN humanitarian program costs.
- The introduction of wheat/wheat flour would not cause meaningful market distortions in an environment of massive shortage and the extant GMB monopoly over purchase and distribution of locally produced wheat stocks.
- (for the USG) WFP management of the monetization would relieve the USG of labor-intensive management and oversight of a bilateral monetization program.

----- Drawbacks and Issues Unresolved -----

11. There are also a number of potential negatives to such an approach, although Angelo and DCM agreed that most of these can be overcome with some creative thinking.

- The program would support GOZ subsidies and fixed food prices that are not determined by sound market principles. (In the current economic meltdown and in the context of unrealistic GOZ economic policies, including exchange rates, some level of subsidy must be factored in if any program is to function. The conditions for a freely functioning market do not exist at the present, and it would be necessary to approach this as a mixed market/humanitarian intervention and view it in the perspective of ongoing rural feeding programs, many of which are basic food giveaways.
- Selection of which millers/bakers to participate must be based on past performance, capabilities rather than political connections, and willingness to bake basic loaves rather than more profitable products. This would require careful UN oversight.
- Potential for "black market" abuses in urban areas would need to be monitored.
- The availability of cheaper food in cities might serve as a magnet to starving rural populations, swelling the number of those moving toward the cities. (This is already occurring as we write, cheap and plentiful bread or not.)
- The quantity of wheat/wheat flour would need to be great enough to close significantly the 250,000 MT shortfall.
- Logistically, there would be timing of delivery and warehousing issues.
- Logistically, a large influx of wheat flour would put this commodity in competition with maize for already overtaxed port, rail, and trucking facilities.

----- Recommendations -----

12. We emphasize that no commitments were made nor implied in the meeting, which is best characterized as a brainstorming session. Angelo stated, however, that he believes it feasible for the UN to undertake a program along the lines discussed above if the USG is able to provide wheat or wheat flour. The availability of this commodity under the Emerson Trust -- and competing needs in Afghanistan, the Horn of Africa, and elsewhere -- will obviously play a determining factor. The Mission recommends that Washington carefully examine the admittedly rough-hewn proposal above in terms of policy and practicality. If sufficient wheat/wheat flour are available, we believe that such a program -- or one that follows a similar script -- could help fulfill Zimbabwe's humanitarian food needs while simultaneously addressing USG policy concerns.